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Are Our Railroads Fairly Treated?

ADDRESS

of

BENJAMIN F. BUSH

PRESIDENT OF THE MISSOURI PACIFIC RAILWAY
COMPANY AND THE DENVER & RIO GRANDE
RAILROAD COMPANY

before the

ECONOMIC CLUB

AT NEW YORK CITY, TUESDAY, APRIL
TWENTY-NINTH, NINETEEN HUNDRED
AND THIRTEEN

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On being introduced by President Speyer, Mr. Bush said:
Mr. President and Gentlemen of the Economic Club:

A careful and impartial analysis of the railroad situation as it exists today, irresistibly forces the conclusion that there is no subject before the people, no policy engaging the attention of the Government, that in its future economic aspect foreshadows more dangers, both to the commerce of this country and to our institutions, than does that of railroad transportation; therefore, that it be solved rightly it should receive the most scrupulous consideration.

The wonderful commercial progress of the United States has been made possible only by the railroads. Since 1870, when the impetus given railroad construction began, the wealth of this country has increased from \$30,000,000,000 to the enormous sum of \$140,000,000,000. Its foreign commerce, in the main largely dependent upon the railroads, from \$800,000,000 to \$4,000,000,000. The internal commerce of the railroads today has reached the stupendous figures of over 293,000,000,000 of units of service—being the tons of freight hauled one mile and the passengers carried one mile.

The volume of this railroad commerce has nearly doubled in twelve years, and taking cognizance of the alert and progressive spirit of our people and our still latent and undeveloped resources—in farm, mine, forest and factory, an alluring promise is foreshadowed for a continued increase.

The fulfillment of this promise rests entirely upon the ability of the railroads to improve their existing plants to a higher

state of efficiency, to extend their lines into the undeveloped regions and thereby provide the necessary facilities for the prompt movement and distribution of the products arising from the awakened activity. The commercial supremacy of the world is the heritage of our Nation if the means at our command are wisely applied.

As to how the railroads can secure the money necessary to make the improvements and extensions to efficiently provide for the carriage of the existing and increasing traffic, so that all lines of industry may develop and operate to full advantage and our vast tide of commerce still further expand and flow unrestricted to its final haven, is "The Railroad Problem".

As the conditions are today, by reason of not having the means at their command, the railroads, with few if any exceptions, cannot give proper movement to the large volume of existing traffic. This was likewise true in 1906, 1907, 1910 and 1912. The transportation facilities are not keeping pace with the increasing traffic requirements.

At the period of their inception, railroads were crudely constructed, but they supplied the needs of the time in moving the sparse traffic then offered for shipment. They were built on the lines of least resistance to meet the varying characteristics of the contour and topography of the country traversed. Later, with the growth of traffic and more urgent requirements, radical improvements had to be made to meet the changed conditions. Practically the lines had to be almost rebuilt—in reducing grades, eliminating curves, replacing wooden with more substantial steel and concrete bridges, widening roadbed and embankments, ballasting track, deepening and widening

ditches, constructing cross-drains, building viaducts over road crossings, building sidings, passing and double tracks, providing heavier rails and ties, larger engines and cars, spacious terminals in large cities, more commodious station buildings, engine houses, shops and many other appurtenances. As the means have permitted, this work of rebuilding and enlarging and improving the roadbed and equipment has been prosecuted, so that a higher standard of service and efficiency might be forthcoming. Billions of dollars have been already expended in this work, but much yet remains to be done before the roads reach that stage of completion that the constantly increasing traffic can be satisfactorily handled. This will require more billions of dollars. The money cannot be supplied from earnings, as on account of inadequate compensation for service rendered the earnings in many cases are scarcely sufficient to maintain the properties in a solvent condition.

How then can this necessary capital be obtained? A railroad to obtain money for extensions into new fields or for the improvement of existing lines must, like a merchant, have an established credit. It must be able to show by past or current operations that it will be able to meet the new interest obligations it assumes and have a surplus over and above all its requirements. Not many railroads are able to do this under the existing operating conditions of high wages paid for labor, increased cost of materials, the higher standard of service demanded by the people and governmental compulsory expense and regulation of charges for transportation.

Legislation of the most onerous character has in recent years been enacted by Federal and State authority, entailing

numerous expenditures without any compensatory provision, many of the acts being entirely without beneficial results to the public and only an economic waste. Three or four bills now being urged upon Congress are estimated to involve an expenditure by the railroads within the next four years of nearly \$1,500,000,000.

These many expenses over which the railroad manager has no power of control have steadily increased the unit cost of operation, and as the unit of compensation for transportation service is regulated by Federal and State authority and is more often reduced than advanced, it follows that the unit of profit is steadily decreasing. If these two opposing units of conditions, cost and compensation, are allowed to continue in their course, it means they will meet in time and all profit will be expunged.

It may be thought, however, that the revenue derived from the increased business will more than offset the increased expense. Such is the view of the ordinary layman who has given the matter only cursory study. If the roads were not working to their full capacity—that is, if they had unused engines, cars, tracks and terminal facilities, they could to some degree for a time offset the increased expenses by additional earnings, but when, as in 1906, 1907, 1910 and 1912, they were burdened with business beyond their capacity, the excess entails an expense much greater than the average cost.

The gross earnings of the railroads increased largely during the last half of 1907, but notwithstanding this, the net earnings decreased over \$22,000,000. For the last six months of 1910 the gross earnings increased over \$55,000,000, while the

expenses increased over \$84,000,000. The volume of traffic moved in those years was very large, and for many months was in excess of the capacity of the carriers.

The Interstate Commerce Commission in 1907 declared that the inadequacy of transportation facilities was alarming, yet when the railroads sought to advance their rates in 1910 to enable them to make better provision for the public demands and establish a higher financial credit, the Commission would not sanction the advance. The earnings for the roads for the two following years, 1911 and 1912, increased \$11,054,000, but the operating expenses and taxes were swelled \$98,544,000, leaving a less net revenue for 1912 than for 1910 by \$87,-490,000. This loss was equivalent to the impairment of their ability to raise over \$2,187,000,000 at 4 per cent. It is thus that the net revenues of the railroads are depleted and their inability to borrow money is further emphasized. If the railroads could retrieve such yearly net losses, they would be able to strengthen their credit in the financial marts and raise the necessary funds to meet the exigent demands of the business public.

It is a mistaken conception, though one generally prevalent, that the railroads are overcapitalized and seek to obtain exorbitant rates from the public to pay interest on the excessive capital. The fact is that the physical properties of the railroads could not be duplicated today for anything like the present capitalization. The money of the owners which has not been capitalized, that has been expended on the roads from year to year since their pioneer days, in betterments and improvements, roadbed, equipment and their accessories, has

long since absorbed any water there may have been in the securities.

Such high authority as the Interstate Commerce Commission declared some time ago that the value of the physical properties of the American railroads was more than that represented by their stock and bonds. This capitalization is less than one-fourth that of the English railways and less than one-half that of the other European countries; yet high as this capitalization of foreign railroads is, they are permitted to charge such rates as yield reasonable net returns.

The average rate received by the United States railroads for hauling a ton of freight one mile is three-quarters of one cent, while the rate received in England for a like service is over two and a quarter cents, or three times as much. The rates of other European countries are also much higher than ours. As has been well said by Mr. Hill, "The American railway pays the highest wages in the world out of the lowest rates in the world, after having set down to capital account the lowest capitalization per mile of any of the great countries of the world." He might have added, they also give the best service in the world.

I believe it can be truthfully said that the causes of complaint in the past against the railroads have been entirely eliminated. The published tariff of charges, accessible to all, governs today, without discrimination or favoritism to any shipper. Complaints may arise and do arise as to rates on specified commodities between given markets, on account of their relation to the rates on like or correlated commodities to and from other markets. These complaints grow out of the rivalry

between communities and are the main grievances of shippers now brought before the Commission.

Shippers naturally endeavor to get the lowest rates possible, and from the standpoint of their individual interests they believe that unjust inequalities exist in rates, although such inequalities may be the result of inexorable economic laws beyond the carrier's power to control. In the adjustment of these differences between markets or rival communities, the decision of the Commission is almost invariably in the direction of reducing the higher rates to the lower level. In this way there is a constant nibbling at the rate fabric, which ultimately will prove as injurious as a general reduction.

It is axiomatic that mutuality of interest exists between the railroads and the shipper; that one cannot prosper unless the other does and that injury to one will later bring injury to the other. If the shipper is charged unreasonable rates or is afforded poor service for the transportation of his wares, he suffers in his business, and this in time re-acts upon the carrier. On the other hand, if the carrier receives insufficient compensation for its service by reason of inconsiderate legislation, or by unwise direction of regulative authority, undue burdens are imposed which increase its expense, then it may, for lack of means, be unable to maintain its former standard of service and thus the shipper and the carrier are both injured.

I recognize that the railroads are in duty bound to serve the public in the best possible manner and that the public, through the State, has the authority to regulate their operations, but when that authority is exercised with reference to the most

minute and varied details, burdening the carrier with an unnecessary expense, which it cannot afford, then it would seem only just that the public, through the State, should allow it the necessary protection in the way of maintaining compensatory rates. This is on the principle that the right to regulate or control carries with it the obligation of reasonable protection. Authority carries with it responsibility and control imposes the duty of protection. I believe that the same principle of justice should be administered to an association of individuals known as a corporation as is administered to the individuals personally in other capacities.

Considering what the railroads have done through the investment of private capital—in upbuilding and developing the country, improving the conditions of living, uplifting the people and adding to all the comforts and conveniences of life, they certainly are entitled to that necessary protection which will enable them to continue in their vocation and elevate to a still higher plane the social, commercial, industrial and agricultural conditions of our people.

An eminent public official, an authority upon this subject, has said: “No just legislation upon this subject will proceed upon the theory that the public alone is in need of protection and that the railroads can take care of themselves. I have no sympathy with such an unfair and illogical contention.”

The United States census returns show that from 1900 to 1910 the capital value of agriculture increased from nearly \$20,500,000,000 to \$41,000,000,000, or 100 per cent, and the capital value of manufactures increased from \$9,000,000,000 to nearly \$18,500,000,000, or over 105 per cent, while the cap-

ital of the railways increased from \$10,250,000,000 to less than \$14,500,000,000, or only 40 per cent.

Here we have an increase in the capital of \$30,000,000,000 in those two important industries of agriculture and manufacture which are almost entirely dependent upon the transportation lines for their successful operation, whereas the capital of the transportation lines with their many appurtenances increased only to the value of \$4,250,000,000.

And again, we find that the value of the products of manufactures increased from \$11,500,000,000 to over \$20,500,000,000, or 81 per cent. As the railroads get a double haul on a large portion of manufactures—the raw material in to the factory and the finished product out, it may be judged how essential it is that they keep abreast of the times in road and equipment to properly take care of the constantly increasing tonnage implied by these enormous values. The largely increased volume of agricultural products, which last year exceeded \$9,000,000,000 in value, must meet with more prompt consideration on the part of the carrier, for through the economic conditions governing, the greater portion of it is rushed to market within a limited time.

The census further shows that notwithstanding the large increase in the capital of manufactures of 105 per cent, the net return to the owners on the total of \$18,500,000,000 was over 12 per cent. Yet on the railway capital there was nothing paid on \$3,500,000,000, and less than 5 per cent on \$7,500,000,000. The services of the railroads make secure the most liberal returns on the enormous capital of \$59,500,000,000 invested in these two industries, and therefore the manufac-

turers and farmers should willingly aid in an effort to get the transportation rates advanced. It is of paramount importance to their own continued welfare that they exert themselves in that direction.

I have already alluded to the immense volume of traffic conducted by the railroads and to the fact that it has increased double-fold in twelve years. Will it continue to increase in the same ratio in the coming years?

The marvelous resources and latent strength of this country are in many respects scarcely trenched upon. Of the total land area of the country 46 per cent is in farms, but of this land in farms only 54 per cent is improved. Only 25 per cent of our great domain is producing anything of value. My friend, ex-Governor Hadley of Missouri, when in office, stated in a public address that the development of Missouri's natural resources had scarcely begun; that there were three counties in the State which had no railroads and seven counties with less than twenty-five miles; and that of the 44,000,000 acres of land in the State more than one-half had never been touched with a plow. A like statement is applicable to many of our Western and Southern States. The opening up and cultivation of these undeveloped lands by the building of railroads would give a further impetus to general trade and industry.

Then again, our farmers are now awakened to the benefits to be derived from the application of scientific methods in agriculture and more intensive yields will be the result. A more careful culture of our wheat lands will easily double the yield and still be less than that of European countries,

whose land has been under cultivation for more than 2,000 years. A like increase can be effected in the other cereals and products of the soil. Our project for the reclamation of the swamp and arid lands goes on apace.

There are vast mining lands with their hidden treasures yet awaiting development. The completion of the Panama Canal will open to us more directly the trade of the Orient and Western South American countries with their hundreds of millions of beings whose wants may be supplied with our merchantable wares. The value of our exports of manufactures is now over \$1,000,000,000 annually, and at the present rate of increase it doubles every three or four years. Our foreign trade in other commodities is taking on a greater momentum.

In all these we have a magnificent vista of possibilities which portends the continual upward trend of our trade and commerce with its concomitant of future steady employment for our people—the desideratum of all governments. The illimitable prospects betoken its continuance if ample provision is made for transportation.

Now, with the present traffic of the railroads reaching the stupendous figures of over 293,000,000,000 of units of service, what will the future increase mean if kept up in the ratio of the past?

You all know something of the capacity of the New York Central Railroad within your own great State, and the magnitude of its operations and transportation facilities. Four per cent of the volume of traffic now annually moved by our

railways would at the present day tax the full capacity of that road, working day and night for one year. As the railroads operated to their full capacity in years of active business, like last year and other past years, an idea may be formed from this illustration of the magnitude of the work that will have to be done in fitting response to the demands of commerce. The commerce is increasing on an average of 8 per cent and more per year, and notwithstanding one-half of this yearly increase would tax the capacity of one of the first railroads in the land, no provision is being made, and no provision can be made, under the rates now received for transportation service for the proper and safe conduct of this prospective traffic.

Can the railroads meet this serious situation with which they are confronted? Yes, if allowed to charge a fair compensation for their services. The railroads now receive on an average per mile $7\frac{1}{2}$ mills for hauling a ton of freight and less than 2 cents for carrying a passenger. If this average compensation could be increased even one mill, or the equivalent of the price of a postage stamp for twenty miles' service, it would extricate them from all further trouble and anxiety. It is scarcely conceivable that such a slight advance would injuriously affect any trade, industry or person, yet it would be the means of conferring untold benefits upon the entire business of the country.

The Honorable Martin A. Knapp, late Chairman of the Interstate Commerce Commission, who had twenty years' experience on that Board, after a careful study of this question from all view points, expressed his deliberate judgment as follows:

"Without regard to the personnel of railroad officials, without regard primarily to the interest of stockholders, but in the interest of public welfare and national prosperity, we must permit railroad earnings to be adequate for railway improvement at advantage and profit.

"The prosperity of the country is measured, and will be measured, by the ability of its railways and waterways to transport its increasing commerce. With a country of such vast extent and limitless resources, with all the means of production developed to a wonderful state of efficiency, the continued advancement of this great people depends primarily upon such an increase of transportation facilities as will provide prompt and safe movement everywhere from producer to consumer; and *that* we shall not secure unless the men who are relied upon to manage these great highways of commerce have fitting opportunity and the capital which is required for their needful expansion is permitted to realize fairly liberal returns."

If the railroads are not allowed to charge a compensation for their services that will enable them to make a fair return on the investment with a reasonable surplus for betterments, improvements and the establishment of their credit, the task on their part of meeting the situation will be hopeless. In equity and justice they are entitled to this, and I believe if the question were understood in its different phases the good sense and fairness of the American people would be asserted in support of the railroads.

Not only have the railroads' expenses steadily increased of late years, but the purchasing power of the compensation

received for their service has decreased. In other words, while the value of a given quantity of farm products will purchase 69 per cent more ton miles of transportation than in 1900, the purchasing power of the compensation received by the railroads for the transportation one mile of a given number of tons of freight in 1910 was 13 per cent less than in 1900.

With these adverse conditions confronting the railroads, it is absolutely necessary in order that they perform their functions to the public that they be allowed to advance at an early date their service charges. This is a matter of more vital concern to the welfare of the entire people, than it is to the individual owners of the railroads.

If the railroads deteriorate in the service rendered, as they undoubtedly must if the conditions are not changed, it unmistakably means, that commerce will be retarded; that industry will languish; that the many fruits of agriculture will wane; that the proud eminence we have attained in our many varied pursuits will crumble, and the unrest, discontent and dissatisfaction of an unemployed people may lead to the establishment of a new order of things with respect to the ownership and operation of the railroads of the country, with the attendant dangers to the perpetuity of our republican institutions. So the conclusion is irresistibly forced upon us that this railroad question is a Government problem, and one of very grave and serious concern, which should be satisfactorily settled, and the ominous dangers threatened averted thereby.

The President of the United States, before his inauguration into office, asserted that

"The measure of service rendered by business to the people will be the measure by which the merit of business shall be judged."

The railroads can accept this declaration and be satisfied to stand or fall by its concrete application.

I believe it will always be found that in any estimate made of the dignity and strength of our Nation, of the enlightenment and social comforts of our people, of the wealth and commercial greatness of our country, the significance of the railroads must stand forth—A MARKED, CONSPICUOUS AND IMPORTANT FEATURE.

